

Message Text

LIMITED OFFICIAL USE

PAGE 01 LA PAZ 02859 01 OF 02 121331 Z

43

ACTION ARA-17

INFO OCT-01 ADP-00 CIAE-00 DODE-00 PM-09 H-02 INR-10 L-03

NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15 USIA-12

AGR-20 STR-08 IGA-02 AID-20 COME-00 EB-11 FRB-02

TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01

TAR-02 IO-12 RSR-01 /191 W
----- 046624

R 112204 Z MAY 73

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC 9882

LIMITED OFFICIAL USE SECTION 1 OF 2 LA PAZ 2859

E. O. 11652: N/A

TAGS: EFIN, ECON, EAID, BL

SUBJ: TAX REFORM PROPOSALS OF MINISTRY FINANCE SENT TO
MINISTERIAL COMMITTEE AND PLANNING AGENCY.

SUMMARY: AS REQUIRED BY STABILIZATION PROGRAM INTRODUCED OCTOBER 27, 1972, MINFINANCE SUBMITTED ON MAY 3, INTERNAL AND EXTERNAL TAX REFORM PROGRAM AND PROPOSALS FOR ADMINISTRATIVE REFORM OF TAX AGENCIES. ADMINISTRATIVE REFORMS WILL, FOR MOST PART, BE UNDERTAKEN THROUGH MINISTERIAL RESOLUTION THUS AVOIDING CABINET CLEARANCE WHICH COULD BLUNT ITS FORCE. THESE REFORMS ARE SUBSTANTIALLY AS DISCUSSED WITH EMBASSY/ USAID OFFICERS AND AID TECHNICAL ASSISTANCE TEAM AND ACCEPTED AS THE MOST IMPORTANT STEPS NECESSARY TO IMPROVE TAX ADMINISTRATION, REDUCE EVASION AND INCREASE REVENUES. END SUMMARY.

1. TAX REFORMS FALL WITHIN FOLLOWING PRINCIPAL AREAS: 1) SHIFT FROM SCHEDULAR TO GLOBAL TAX RATES ON INDIVIDUAL INCOME FROM VARIOUS SOURCES; 2) SIMPLIFICATION OF TAX STRUCTURE APPLICABLE TO CORPORATION PROFITS AND EXTENSION OF THE TAX SYSTEM TO SMALL MERCHANTS; 3) REFORM OF SALES TAX REGIME WHICH WOULD PERMIT
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LA PAZ 02859 01 OF 02 121331 Z

APPLICATION OF SALES TAX GENERALLY ON FIRST STAGE ONLY TO AVOID CASCADING EFFECT OF PREVIOUS SYSTEM WHICH CAUSED SUBSTANTIAL PRICE DISTORTIONS; 4) SELECTIVE SALES TAX ON CONSUMER GOODS WITH RATE VARYING DEPENDING ON ESSENTIALITY OF GOODS; 5) UNIFIED SALES TAX ON BEER, ALCOHOLIC BEVERAGES, LIQUORS, AND CIGARETTES AT THE PRODUCTION LEVEL; 6) TAX ON FARM LAND; AND 7) RESTRUCTURING OF TARIFF SYSTEM AND RATES TO BETTER REINFORCE INDUSTRIAL AND OTHER SECTOR DEVELOPMENT AND TO CONFORM WITH ANDEAN PACT REQUIREMENTS.

2. TAX RATE STRUCTURE TO APPLY TO BUSINESS PROFITS AND PERSONAL INCOMES WERE NOT ESTABLISHED IN THE MINISTER' S PROPOSALS NOR WAS THERE SUFFICIENT ANALYSIS WHICH WOULD PERMIT ESTIMATES OF REVENUE GAINS AND FOR LOSSES ASSUMING VARIOUS RATES. THUS, IT APPEARS REFORM MEASURES WERE PRESENTED TO PLANNING AGENCY AND MINISTRY COUNCIL AS TECHNICAL DOCUMENTS TO PERMIT POLITICAL JUDGMENTS ON RATES. SALES TAX REFORM AND SMALL MERCHANT TAX SUGGESTED RATES BUT AGAIN DID NOT OFFER ANALYSIS OF REVENUE IMPACT. REMAINS TO BE SEEN WHETHER GOB WILL ACCEPT TOTAL PACKAGE.

3. TAX ADMINISTRATION REFORM INCLUDED MOST OF PROPOSALS PUT FORWARD BY AID TAX ASSISTANCE TEAM. IMPLEMENTATION WILL PROBABLY BE CARRIED OUT THROUGH MINISTERIAL RESOLUTIONS, THUS AVOIDING PROBLEMS OF PRESIDENTIAL DECREE PROCEDURE WHICH REQUIRES FULL COUNCIL OF MINISTERS' AGREEMENT. IN MEETINGS PRIOR TO FINAL DECISIONS THE MINISTER APPEARED TO GIVE FULL BACKING TO PROPOSALS AND INDICATED CLEAR INTENTION TO IMPLEMENT. FIRST STEP WAS TAKEN WITH THE ANNOUNCEMENT OF ADMINISTRATIVE REFORM AND WE BELIEVE THAT HE WILL GO FORWARD WITH THE CHANGES.

4. THE CUSTOM TAX REFORM INCLUDED THE INTRODUCTION OF NEW TARIFF RATE STRUCTURES COMPATIBLE WITH ANDEAN PACT DECISIONS, AND RESTRUCTURING OF TARIFF NOMENCLATURE TO FIT MORE CONSISTENTLY WITH BRUSSEL' S NOMENCLATURE. IN ADDITION, SURCHARGES ON IMPORTS OVER AND ABOVE THE TARIFFS APPEAR TO BE SCHEDULED FOR ELIMINATION AND TO BE SUBSTITUTED FOR BY THE ABOVE- MENTIONED CONSUMPTION TAX. THIS TAX WILL BE COLLECTED BY CUSTOMS AUTHORITIES BASED ON CIF VALUE EX- CUSTOMS, THUS APPARENTLY MAKING BASE SOMEWHAT LARGER THAN PRESENT SURCHARGES WHICH APPLY ONLY TO CIF VALUE.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LA PAZ 02859 01 OF 02 121331 Z

5. A. PERSONAL INCOME TAX CHANGES: SHIFTING FROM SCHEDULAR SYSTEM TO GLOBAL SYSTEM MEANS INCOME TAX WILL BE APPLIED MORE UNIVERSALLY TO VARIOUS INCOME SOURCES AND THE APPLICATION OF A PROGRESSIVE RATE STRUCTURE, ALTHOUGH PROGRESSIVITY OF THE RATES IS STILL TO BE DETERMINED. UNDER PRESENT SYSTEM TAX OFFICE UNABLE TO ADMINISTER THE SYSTEM DUE TO ITS COMPLEXITY. FOR EXAMPLE, PERMITS INDIVIDUALS, SUCH AS PROFESSIONALS, WITH INCOME FROM

VARIOUS SOURCES, TO DECLARE ONLY PART OF INCOME WHILE OTHER PORTION WAS ALLOCATED TO SMALL BUSINESS VENTURES. THUS, MULTIPLE SOURCES INCOME CAN REMAIN IN NON- TAXABLE, OR LOW TAX ZONES BECAUSE OF DIVERSITY AND SIZE. HOWEVER, UNDER THE PROPOSED SYSTEM ALL THESE SOURCES COULD BE UNIFIED AND TAXED ON A SINGLE RATE STRUCTURE. AN INCREASE IN COLLECTIBLE TAXES OF INITIALLY \$20 MILLION PESOS. HOWEVER, OFFICIAL SOURCE DID NOT INDICATE THE REVENUE GAIN EXPECTED FROM CHANGE.

B. CORPORATE INCOME TAX: MOST IMPORTANT ELEMENT APPEARS TO BE DEFINITION OF ELEMENTS INCLUDED IN COMPUTATION OF PROFIT LEVEL AND INTRODUCTION OF GUIDELINES ON INVESTMENT PRIORITIES THAT WOULD LEAD TO LOWERING THE APPLICABLE TAX RATE. THE TAX RATES WERE NOT ESTABLISHED IN THE PROPOSALS, BUT IT DOES APPEAR TO BE A SINGLE RATE TAX WHICH WOULD BE LOWERED IF THE COMPANY REINVESTED IN EMPLOYMENT GENERATING ACTIVITIES, NON- TRADITIONAL EXPORTS, OR UTILIZED LOCAL RAW MATERIALS, ETC. THESE REFORMS SEEM TO SIMPLIFY THE SYSTEM AND CLARIFY THE TAX INCENTIVE APPLICABLE TO PRIORITY INVESTMENT AREAS.

LIMITED OFFICIAL USE

NMAFVVZCZ

ADP000

LIMITED OFFICIAL USE

PAGE 01 LA PAZ 02859 02 OF 02 121456 Z

50

ACTION ARA-17

INFO OCT-01 ADP-00 CIAE-00 DODE-00 PM-09 H-02 INR-10 L-03

NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15 USIA-12

AGR-20 STR-08 IGA-02 AID-20 COME-00 EB-11 FRB-02

TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01

RSR-01 TAR-02 IO-12 /191 W

----- 046948

R 112204 Z MAY 73

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC 0000

LIMITED OFFICIAL USE SECTION 2 OF 2 LA PAZ 2859

C. SALES TAX REFORM: INVOLVES THE UNIFICATION OF ALL PREVIOUSLY CASCADING TAXES INTO A SINGLE STEP TAX AT THE FIRST STAGE OF PRODUCTION AND/ OR IMPORTATION. THE TAX WOULD BE PAID PRIOR TO SALE OF GOODS TO NEXT LEVEL. THIS IS FIRST STEP AWAY FROM A CASCADING TO A VALUE ADDED TAX. THE CONSOLIDATION OF VARIOUS TAXES AT A SINGLE STAGE AND THE APPLICATION OF 5 PERCENT RATE WILL PROVIDE AN

ESTIMATED ADDITIONAL \$5.5 MILLION PESOS IN FIRST YEAR DUE TO PRIOR PAYMENT REQUIREMENT. THE APPLICATION OF TAX AT ONE STAGE REDUCES THE OPPORTUNITY FOR EVASION WHICH IS PREVALENT UNDER CASCADING STRUCTURE.

D. CONSUMPTION TAX: A TAX ON CONSUMER GOODS WHICH ARE MOSTLY IMPORTED. THE RATE STRUCTURE WILL VARY FROM 20 PERCENT TO 30 PERCENT

DEPENDING ON THE IMPORTANCE OF GOODS. ALL CONSUMER GOODS WOULD CARRY

A BASIC

RATE OF 15 PERCENT AND ADDITIONAL RATES OF 5, 10, 15 PERCENT

DEPENDING ON THE DEGREE OF " ESSENTIALITY". THE INTRODUCTION OF THIS TAX WILL APPARENTLY COINCIDE WITH THE REDUCTIONS IN THE TARIFF AND SURCHARGE RATES ON IMPORTED GOODS AS REQUIRED BY ANDEAN PACT DECISIONS.

THE COLLECTIONS WILL BE MADE BY THE ADUANA ON THE BASE OF THE CIF VALUE EX- ADUANA.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LA PAZ 02859 02 OF 02 121456 Z

E. UNIFIED TAXES ON ALCOHOL, LIQUORS, BEER, SOFT DRINKS AND CIGARETTES: TAX RATE WOULD BE SOMEWHAT HIGHER AT PRIMARY LEVEL OF PRODUCTION TO REDUCE OPPORTUNITIES FOR EVASION. PROCEEDS FROM THESE TAXES WOULD CONTINUE TO BE EARMARKED FOR VARIOUS INSTITUTIONS BUT WITH TREASURY RECEIVING BETWEEN 50 PERCENT AND 60 PERCENT OF THE

TAX COLLECTIONS. UNIFICATION OF A NUMBER OF TAXES, INCLUDING REGIONAL SURCHARGES APPEARS TO INCREASE THEIR OVERALL NOMINAL RATE BY

5 TO 10 PERCENT. PROPOSED NEW EARMARKING REGULATIONS WOULD INCREASE

CENTRAL GOVERNMENT PARTICIPATION IN THESE COLLECTIONS BY ABOUT 10 PERCENT IN MOST INSTANCES. THUS, REVENUE COLLECTIONS COULD BE INCREASED BY ABOUT \$20 MILLION PESOS ANNUALLY USING 1972 COLLECTIONS AS A BASE.

F. AGRICULTURAL LAND TAX: AT PRESENT, AGRICULTURAL LAND IS TAXES INTERMITTENTLY AT REGIONAL LEVEL. THE REGIONAL RATES VARIED WIDELY AND FREQUENTLY NOT REAL LAND TAX BUT ARE APPLIED TO COMMERCIAL TRANSACTIONS IN AGRICULTURAL GOODS RATHER THAN ON LAND ITSELF OR ITS UTILIZATION. GOB PROPOSAL INCLUDES 2.5 PERCENT TAX RATE TO BE APPLIED ON A BASE LINKED TO MINIMUM VALUATION ESTABLISHED MILITARY GEOGRAPHIC INSTITUTE PLUS A SELF VALUATION BY THE LANDOWNER. THIS VALUATION BASE, ALTHOUGH SELF- SERVING, CONSTITUTES THE BASE ON WHICH FARMER CAN RECEIVE LOANS, STATE FUNDS AND/ OR SERVICES. THUS, FARMERS BORROWING FROM AGRICULTURAL BANK (OR ANY OTHER CREDIT INSTITUTION) WOULD DECLARE THE VALUE OF HIS HOLDINGS, I. E., TAXABLE VALUE WHICH THEN CONSTITUTES THE COLLATERAL FOR A LOAN-- THE LOWER THE VALUATION, THE LOWER THE COLLATERAL BASE. MAJORITY OF FARMERS, HOWEVER, PARTICULARLY ON HIGHLANDS, ARE SUBSISTENCE FARMERS AND NOT RELIANT ON EXTERNAL ASSISTANCE. HOWEVER, THIS PROPOSAL MARKS IMPORTANT FIRST STEP TOWARD BRINGING RURAL SECTOR UNDER FISCAL REGIME. OFFICIAL ESTIMATE OF IMMEDIATE POTENTIAL

REVENUE \$71 MILLION PESOS WHICH IMPLIES A RATE OF 5 PERCENT ON ESTIMATED VALUE OF AGRICULTURAL LAND. HOWEVER, GOB APPEARS TO BE CONTENT TO INITIATE PROGRAM AT 2.5 PERCENT LEVEL WHICH COULD MEAN ABOUT \$35 MILLION PESOS IN NEW REVENUE ANNUALLY. TAX IS FLAT RATE ON ALL TYPES OF LAND, BUT IS INTENDED TO PROVIDE INCENTIVES TO PUT LAND INTO PRODUCTIVE USE. WE NOT YET CONVINCED THAT TAX AS NOW CONCEIVED WILL ACTUALLY PROVIDE SUCH INCENTIVE.

6. COMMENT: PROPOSALS PRESENTED TO CONEPLAN AND PRESIDENT APPEAR TO BE TECHNICAL RECOMMENDATIONS FROM MINFIN WITH LITTLE ARGUMENTATION, AS FAR AS WE ARE AWARE, TO DEMONSTRATE IMPORTANCE OF THE PROPOSALS
LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 03 LA PAZ 02859 02 OF 02 121456 Z

FOR GOB FINANCIAL HEALTH. THE RATES FOR PERSONAL INCOME AND CORPORATE TAXES WERE LEFT OPEN, GIVING OTHER AGENCIES AND PRESSURE GROUPS SUBSTANTIAL OPPORTUNITIES FOR MAKING MAJOR CHANGES. THIS LACK OF DECISIVENESS MAY WEAKEN EFFORT. INTRODUCTION OF LAND TAX IS IMPORTANT STEP WHICH COULD BE HIGHLY BENEFICIAL IF CONTINUED. APART FROM LAND TAX, THE PROPOSED MEASURES APPEAR TO AFFECT ABOUT 60 PERCENT OF THE TAX COLLECTIONS MADE BY THE INTERNAL TAX OFFICE IN 1972.

7. ADMINISTRATIVE REFORM PROPOSALS APPEAR TO ATTACK THE MOST SIGNIFICANT BOTTLENECKS IN CUTTING DOWN EVASION, FALSE DECLARATIONS, AND OTHER ABUSES OF THE TAX SYSTEM. MAJOR RECOMMENDATIONS OF AID AND OAS TAX TEAMS APPEAR TO HAVE BEEN ACCEPTED AND IMPLEMENTATION HAS BEGUN ON SOME ASPECTS. WE EXPECT THAT MINISTERIAL RESOLUTIONS PUTTING INTO OPERATION MOST OF PROPOSALS WILL BE FORTHCOMING IN NEAR FUTURE.

8. ESTIMATION OF THE IMPACT OF THE REFORMS, BOTH ADMINISTRATIVE AND POLICY, ON FISCAL REVENUES ARE NEARLY IMPOSSIBLE TO MEASURE AT THIS TIME, BUT IT APPEARS THAT BETWEEN \$ B100 AND \$ B130 MILLION ADDITIONAL COULD BE GARNERED ANNUALLY. BETTER ESTIMATIONS CAN BE MADE ONCE PROPOSALS ARE ACCEPTED AND ALL RATES ESTABLISHED. THE MOST IMPORTANT GAINS ARE LIKELY FROM ADMINISTRATIVE REFORMS WHICH COULD BRING IN AS MUCH AS \$ B100 MILLION. HOWEVER, IT APPEARS MORE REASONABLE TO ASSUME THAT FULL IMPLEMENTATION WILL BE A LONG PROCESS AND THAT IMMEDIATE REVENUE BENEFITS MAY BE CLOSER \$40 - \$50 MILLION PESOS WITH THE TAX POLICY REFORMS POSSIBLY CONTRIBUTING SOME \$60 - \$80 MILLION ANNUALLY IN SHORT TERM. THIS EXCLUDES ESTIMATES ON PERSONAL AND CORPORATE INCOME TAX CHANGES WHICH COULD BE SUBSTANTIAL. IN GENERAL, IT IS BELIEVED THAT TAX REFORMS WILL NOT SOLVE ALL FISCAL PROBLEMS BUT ARE STEPS IN RIGHT DIRECTION AND WE EXPECT CONTINUING NEED FOR SPECIAL EXPORT TAXES INTRODUCED OCTOBER 27, 1972 BEYOND OCTOBER 1973.
SIRACUSA

LIMITED OFFICIAL USE
NMAFVVZCZ

*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 11 MAY 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973LAPAZ02859
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: LA PAZ
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730540/aaaaiqsl.tel
Line Count: 278
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 15 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15-Jan-2002 by martinjw>; APPROVED <05-Feb-2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> mcm 980122
Subject: TAX REFORM PROPOSALS OF MINISTRY FINANCE SENT TO MINISTERIAL COMMITTEE AND PLANNING AGENCY
TAGS: EAID, ECON, EFIN, BL
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005